

VZCZCXRO4238
PP RUEHCHI RUEHDT RUEHHH
DE RUEHHM #0711 2190102
ZNR UUUUU ZZH
P 060102Z AUG 08
FM AMCONSUL HO CHI MINH CITY
TO RUEHC/SECSTATE WASHDC PRIORITY 4734
INFO RUEHHI/AMEMBASSY HANOI PRIORITY 3183
RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHHM/AMCONSUL HO CHI MINH CITY 4962

UNCLAS HO CHI MINH CITY 000711

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EPET](#) [ENRG](#) [PGOV](#) [VN](#)
SUBJECT: FUEL PRICE HIKES SQUEEZE HCMC RESIDENTS

REF: A) HANOI 846 B) HANOI 883

¶1. (SBU) Summary: Last week the Government of Vietnam (GVN) took analysts and consumers by surprise when it hiked fuel prices 31 percent with no advance notice. HCMC analysts saw an immediate impact on the city's workers (one estimated his office workers will spend an additional 5 percent of their current salary on gas) but maintain that the move was long overdue as Vietnam's fuel subsidies were a prime example of how wasteful government spending has contributed to inflation. One Vietnamese banker estimated that a third of the State transfers translate into oil subsidies while 40 percent of Vietnam's fuel is consumed by foreigners. End summary.

Out of the Blue

¶2. (SBU) The GVN surprised commuters and economists alike when they increased fuel prices by 31 per cent on July 21. This was an effort to cut state subsidies and ward off smuggling, according to the media (reftel A). The price of gasoline rose 31 per cent to VND 19,000 (US \$1.10) per liter (US \$4.17 per gallon) on top of an 11 percent hike in gasoline in February. Both WTO commitments and environmental concerns were cited as important reasons for lowering the fuel subsidy.

¶3. (SBU) When Finance Minister Vu Van Ninh announced the fuel price hike he said the move would add just 0.5 to 0.7 percent to the inflation rate (27 percent in year-on-year July). He would not speculate on the secondary impact that higher gas prices would have on the cost of food or other items in Vietnam's consumer price index market basket. HCMC analysts estimate the hike will add at least 2 percent and push year-end inflation above 30 percent (reftel A and B).

and Into the Black

¶4. (SBU) The average HCMC resident will feel the pinch the hardest. On average, HCMC's ubiquitous motorbikes now require an additional VND 200,000-250,000 (US \$12.10 to \$15.13) per month for fuel. For locally engaged staff in the Consulate's Pol/Econ section, this means an additional 6.9 to 8.6 percent of their disposable income. Residents also complain that the government has not taken any concrete actions to improve the city's public transportation system. Taxi operators in HCMC increased their fares by 2 cents per kilometer and the national railway corporation has applied to the Ministry of Transport for approval to increase fares by 4 percent in response to the fuel price hike.

HCMC Economists Welcome the Increase

¶5. (SBU) Most HCMC bankers and fund managers saw this hike as a long-overdue move to fight long-term inflation and use limited state resources more appropriately. In the first half of 2008, fuel subsidies cost US \$854 million and are expected to go up to USD 2.63 billion in the second half. One fund manager framed the argument as the GVN spending 38 percent of the State's income subsidizing gas consumption -- in reality subsidizing

PetroVietnam -- rather than core needs like infrastructure development or poverty alleviation. By more appropriately pricing consumption, Vietnam can actually avoid the kind of misallocation of resources and wasteful investment that also contributes to inflation. Moreover, the difference in fuel prices between Vietnam (now US \$1.10 per liter, previously US \$0.86 per liter) and its neighbors Cambodia (US \$1.38 per liter) and Laos (US \$1.13 per liter) had encouraged smuggling (reftel A). One influential Vietnamese banker told us it's widely held that 40 per cent of Vietnam's fuel is consumed by "foreigners" -- smuggled to Laos and Cambodia or consumed locally by foreign direct investment.

Comment:

¶6. (SBU) The timing of this move, just after the 7th Party Plenum, suggests that this was a tough decision that needed to be made by consensus at the highest levels. The latest attempt to scale back the fuel subsidy occurred while Prime Minister Nguyen Tan Dung was away from the country in February 2008; that decision was reversed soon after he returned. This saga has as much to do with potential harm to state-owned behemoth PetroVietnam as the impact of expensive fuel on the Vietnam's people. Despite the fact that many HCMC financial sector experts see this as long overdue, the GVN will be closely watching the public response to calibrate future price reform moves. It's also encouraging to see the GVN and newspapers using WTO and environmental arguments to justify this policy decision -- that means economic integration and education efforts are taking effect. End comment.

¶7. (U) This cable was coordinated with Embassy Hanoi.

FAIRFAX